

Message Text

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ACTION EB-07

INFO OCT-01 EUR-12 ISO-00 CAB-02 CIAE-00 COME-00 DODE-00

DOTE-00 INR-07 NSAE-00 FAA-00 SS-15 NSC-05 L-02 H-02

OMB-01 TRSE-00 /054 W

----- 009344

R 271735Z MAR 75

FM AMEMBASSY BONN

TO SECSTATE WASHDC 9031

INFO USMISSION USBERLIN

AMEMBASSY LONDON

AMEMBASSY PARIS

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E.O. 11652: N/A

TAGS: PFOR, EAIR, WB, US, UK, GW, FR

SUBJECT: IGS FARE INCREASE PRESENTATION

REF: BONN 3245

1. SUMMARY: PAA REVISED FARE INCREASE APPLICATION CONFIRMS EARLIER ESTIMATES THAT THE CARRIER WOULD REALIZE AN OPERATING PROFIT OF OVER 13 PERCENT IF ROUTE SWAP AND 7.9 PERCENT FARE INCREASE AUTHORIZED. IN VIEW OF THE NECESSITY OF RE-EVALUATING FARE INCREASE PROPOSAL, BRITISH HAVE AGREED TO PROCEED IMMEDIATELY TO THE BCATAG WITH ROUTE DIVISION PROPOSAL. PAA DATA POSES SERIOUS QUESTION AS TO WHETHER FARE INCREASE FOR PAA JUSTIFIED AT THIS TIME. NONETHELESS, BA'S NEEDS MUST BE TAKEN INTO ACCOUNT AND WE WOULD HOPE ARRANGEMENT COULD BE WORKED OUT TO AVOID DIFFERENTIATED FARES ON THE IGS. ACTION REQUESTED: DEPARTMENT'S VIEWS. END SUMMARY.

2. PAA OFFICIALS CARLSON AND RUNNETTE CALLED AT THE EMBASSY MARCH 24 TO DELIVER PAA'S REVISED FARE INCREASE APPLICATION TAKING INTO ACCOUNT THE EFFECT ON AIRLINE
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OPERATING COSTS OF A ROUTE DIVISION. PAA CONTINUES TO

PURSU A 7.9 PERCENT FARE INCREASE (TO THE PASSENGER, OR ABOUT 6.9 TO THE AIRLINE) BASING ITS JUSTIFICATION ON BA'S REQUIREMENTS, ITS OWN UNEXPECTANTLY POOR OPERATING PROFIT FOR 1974 AND ITS EXPECTATION OF STEEPLY RISING COSTS IN THE LAST FEW MONTHS OF THIS YEAR AND THE FIRST QUARTER OF 1976.

3. A RAPID REVIEW OF THE COPIOUS STATISTICAL ANNEXES INDICATES THAT PAA ESTIMATES AN OPERATING PROFIT OF 11.2 PERCENT FOR CALENDER YEAR 1975 WITH A ROUTE SWAP AT PRESENT FARES. THIS FIGURE INCREASES TO 13.6 PERCENT IF A FARE INCREASE AT THE PROPOSED LEVEL IS GRANTED. PAA HAS ALSO CALCULATED RESULTS UNDER THE SAME ASSUMPTION FOR ITS "NORMALIZED YEAR" OR APRIL 30, 1975 THROUGH APRIL 30, 1976 WITH A SOMEWHAT LESS IMPRESSIVE YIELD. ON THIS BASIS A ROUTE SWAP ALONE RESULTS IN AN 8.5 PERCENT OPERATING PROFIT RISING TO 11.9 PERCENT WITH A FARE INCREASE. (ALL CALCULATIONS ASSUME A MAY 1 IMPLEMENTATION FOR THE SWAP AND FARE INCREASE.) THE NARRATIVE PORTION OF THE APPLICATION POINTS OUT THE ESTIMATES OF OPERATING RESULTS DO NOT TAKE INTO ACCOUNT THE ONE-TIME COSTS OF IMPLEMENTING THE ROUTE DIVISION WHICH PAA CALCULATES AT ABOUT US \$800,000.

4. DURING THE DISCUSSION CARLSON MADE THE POINT THAT PAA'S ESTIMATES OF OPERATING PROFIT WERE PROBABLY ON THE OPTIMISTIC SIDE IN TERMS OF TRAFFIC VOLUME FORECASTS AND COST INCREASES. NONETHELESS, HE CONCEDED THAT EVEN WITH THE ONE-TIME COSTS OF THE ROUTE DIVISION FACTORED IN AND A SOMEWHAT LOWER LEVEL OF TRAFFIC, OPERATING RESULTS WOULD VARY ONLY A PERCENTAGE POINT OR TWO FROM THE FIGURES CITED ABOVE. MORE SIGNIFICANTLY, HE OPINED THAT RISING COSTS WOULD PROBABLY LEAD PAA TO HAVE TO REQUEST A FARE

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INCREASE LATER IN THE YEAR IF ONE WAS NOT RECEIVED AT THIS POINT. WE TOLD CARLSON THAT CONFIRMATION OF HIS EARLIER ESTIMATES RE THE IMPACT OF THE ROUTE DIVISION ON PAA'S OPERATING PROFITS POSED SERIOUS QUESTIONS IN OUR MINDS RE THE JUSTIFICATION FOR CONTINUING TO SEEK A FARE INCREASE AT THE LEVEL PROPOSED. WE ADDED THAT THE NEW DATA WOULD HAVE TO BE REVIEWED ONCE AGAIN IN WASHINGTON BEFORE WE COULD MAKE A FINAL DETERMINATION.

5. IMMEDIATELY AFTER CARLSON'S VISIT WE INFORMED UK CAA GROVES THAT WE WOULD BE UNABLE TO PROCEED ON THE FARE INCREASE APPLICATION UNTIL PAA'S REVISED CASE WAS RE-EVALUATED IN WASHINGTON. GIVEN THIS DELAY, WE URGED HIM TO AGREE TO PROCEEDING WITH THE ROUTE DIVISION. AFTER CHECKING WITH LONDON, GROVES CALLED THE FOLLOWING DAY TO REPORT THAT HMG WOULD BE WILLING TO PROCEED ON THAT BASIS (SEE SEPTTEL).

6. COMMENT AND ACTION REQUESTED: WE WOULD APPRECIATE DEPARTMENT'S VIEWS ON PAA'S REVISED FARE JUSTIFICATION
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WHICH PAA PLANS TO SUBMIT IN WASHINGTON BY MARCH 27. OUR INITIAL FEELING IS THAT WHILE A FARE INCREASE WOULD APPEAR NOT TO BE SUPPORTED BY PAA'S DATA, SOME EFFORT WILL HAVE TO MADE TO ACCOMODATE BA. MOREOVER, PAA'S INTENTION TO SEEK A FARE INCREASE LATER IN THE YEAR IF ONE IS NOT GRANTED NOW SHOULD BE TAKEN INTO ACCOUNT. IT OCCURS TO US THAT PERHAPS A TWO-STEP FARE INCREASE ARRANGEMENT COULD BE WORKED OUT WITH THE BRITISH WHICH IF SUCCESSFUL WOULD AT LEAST SPARE THE BERLIN TRAVELING PUBLIC THE FULL BRUNT OF THE HIGHER FARES FOR SOME MONTHS. WE BELIEVE AN ARRANGEMENT ALONG THESE LINES WOULD BE PREFERABLE TO DIFFERENTIATED IGS FARES, A SITUATION WHICH COULD EASILY DEVELOP GIVEN BA'S RELATIVE-

LY URGENT REQUIREMENT FOR INCREASED REVENUES.
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